Audit's® NEWS ANALYSIS OF SECURITIES OF REAL ESTATE INVESTMENT TRUSTS

Realty Trust Review

May 14, 1976 VOL. VII, No. 9

INDUSTRY OUTLOOK AND INDIVIDUAL TRUST REVIEW ISSUE

Survivors and others: Is halitosis better than no breath at all?.....1
Subscribers ask: Update on TMC Mortgage; Tri-South Mtg. bonds; Chase bonds.....7
Comments on Associated Mtg., BT Mtg., Cabot, C&F Land Trust, Citizens & Southern Rlty., Hospital Mtg., Investors Rlty., IDS Rlty., ICM Rlty., Lomas & Nettleton Mtg., LMI Inv., North Amer. Mtg., Realty ReFund Trust

STATISTICAL PROFILE OF TRUSTS REVIEWED THIS ISSUE

	Port. Mil.$	-Book val./sh.- Net	Gross	Last 12Mo. EPS	NCF	% Ret. on- Net	Gross	Share price	Div. Yield	Page
Consol. Cap. Rl..	$ 59	$21.65	$23.23	$0.31	$1.61	1.4%	6.9%	26	7.7#	6
Florida Gulf.....	33	16.26	19.03	0.61	1.40	3.8	7.4	11¼	11.7#	2
General Growth...	225	6.30	9.55	1.11	1.35	17.6	14.1	19½	6.7#	3
Pennsylvania REIT	71	11.21	24.32	1.38	1.54	12.3	6.3	11-1/8	10.3	4
REIT of America..	41	21.22	28.78	1.40	1.60	6.6	5.6	15½	9.0	3
Washington REIT..	28	10.52	16.06	1.41	1.61	13.4	10.0	16-1/8	8.0	5
TOTALS/AVGS....	$457	$15.29	$20.16	$1.04	$1.52	9.2%	8.4%		8.9%	

Comparisons above show results both including depreciation and ignoring depreciation. Percent return on net book value is income per share earned on net book value after depreciation. Gross return is amount of net cash flow earned on book value with depreciation added back. # Partially tax-free.

SURVIVORS AND OTHERS: IS HALITOSIS BETTER THAN NO BREATH AT ALL?

To most outsiders and to many investors, the REIT group is like Humpty Dumpty--it's had a great fall and is having extreme difficulty in putting itself together again. Actually that generalization applies to only about two-thirds of the trusts we follow; about one-third, or approximately 40 trusts, have continued to pay dividends through the recession. This top one-third of REITs are the unquestioned survivors. Their securities are suitable for conservative investors and several are reviewed in this issue.

This group is balanced by another 40 trusts who won't survive as mortgage trusts and whose best course is conversion into real estate management or investment entities. They exist as wards of the commercial banks and their shares are largely highly speculative long-term recovery or trading vehicles. And in between are about 50 trusts which have halted dividends but whose portfolios are capable of longer-term recovery. In the vernacular, they have halitosis and the question is whether they can cure themselves while there's any equity left for shareholders.

It's important that investors have a firm idea of where their holdings fit into these three tiers because very soon S-G Securities plans to offer to exchange its shares for those of about 100 "representative" trusts. S-G, with net asset value of $1.55/sh., is one of three closed-end investment companies that began as specialists in REIT shares (the others were CNA-Larwin Investment, NYSE listed with negative net asset value of $7.47 last week, and RET Income Fund, ASE listed and with $2.00/common share

KENNETH D. CAMPBELL, EDITOR AND PUBLISHER, BERNARD SOLAS, C.F.A., DIRECTOR OF RESEARCH/ AUDIT INVESTMENT RESEARCH, INC., 230 PARK AVENUE, NEW YORK 10017

REALTY TRUST REVIEW, REAL ESTATE DISCLOSURE DIGEST, and special industry investment reports are published by Audit Investment Research, Inc., an independent investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Under no circumstances is anything contained herein to be construed as an offer to purchase or a solicitation to sell any security mentioned. Information has been obtained from sources believed to be reliable and reasonable care has been exercised in compilation, but accuracy or completeness cannot be guaranteed. Expressions of opinion are solely the responsibility of the publisher and may be changed at any time without notice. Advisory services are mailed to reach subscribers no later than the Monday following publication date; Audit's officers, employees and printers are not permitted to trade upon any recommendation until the Tuesday following. Subscriptions may not be assigned without consent and unused portion refunded on request. Copyright© 1976 by Audit Investment Research, Inc., 230 Park Avenue, New York, N.Y. 10017. Telephone: 212/725-1410.

PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS/SUBSCRIPTIONS $115 ANNUALLY / SINGLE COPY $7 / BACK ISSUES $1.25 TO SUBSCRIBERS ONLY
GROUP RATES ON REQUEST

positive NAV last week). All three are leveraged with preferred stock, and thus cannot pay common share dividends unless total fund assets equal twice the value of preferred stock. Thus all three currently don't pay common dividends, and CNA-Larwin omitted its preferred payout as well in April. The S-G exchange is calculated to let that fund resume common dividends (provided funds are available) by enlarging its capital base by trading its new shares for shares of disillusioned current holders. There are many nuances to the proposed offering, and current REIT investors should read the prospectus carefully when the registration becomes effective. Each investor will have to decide whether he can achieve his investment goals by managing his own holdings or throwing in with a larger fund. Since S-G says it won't accept shares of the deeply troubled trusts (e.g., Continental Mortgage), the real question is whether to hold or tender the halitosis-ridden trusts. As you may know, Audit is a consultant to RET Income Fund but this won't inhibit us from trying to offer guidance in future issues. One aid will be an expanded RELATIVE APPEAL RANKINGS in the next issue. Six equity trusts are reviewed this issue.

FLORIDA GULF REALTY TRUST (10-3/4 bid--OTC-FGLFS) FY April 30

Portfolio: About 93% of holdings are in 13 shopping centers with 1.9 million sf, plus eight mid-rise office buildings in Tallahassee, Fla. leased to Florida state or Federal agencies. Two regional shopping centers, Bellair Plaza in Daytona Beach and Sunshine Mall in South Daytona, of 366,000 and 270,000 sf respectively, are the key holdings. The remaining 11 community and neighborhood centers with 1.3 million sf are all located in Florida with the exception of 170,000 sf Midlothian Shopping Center in Richmond, Va. Major tenants in these centers include three Woolco discount stores plus one smaller unit of F.W. Woolworth Co., totaling 359,000 sf; W.T. Grant, now in liquidation, 119,000 sf in two locations; Belk-Lindsey department stores with 71,000 sf in two centers; G.C. Murphy Co., also in two centers for 72,000 sf. Winn-Dixie supermarkets are in nine centers and Neisners variety stores in six locations, these two tenants accounting for 170,000 and 120,000 sf respectively. Overall these six tenants account for 47% of space.

Liquidation of W.T. Grant has required the trust to seek re-leasing of 68,000 sf in the Pine Street Center, Ocala, and 51,000 sf in Golden Triangle center, Mt. Dora, Fla. Management reports the Mt. Dora space is near signing with a national tenant and part of the Ocala space is already leased; this is a two-level space suitable for several tenants. Grant rents were paid through December so the April quarter, last in the fiscal year, will be the first to feel loss of the $180,000 annual rental (about 4% of last year's total rents but equal to 4½-cents/sh. quarterly). Aside from Grant, these centers produced strong overage income of $520,000 in the April 1975 fiscal year, or nearly 12% of total rents. Overages were ahead 15% in the nine months through January 1976, although Grant closing may have slowed the gain in the April period.

Sponsor: Loeb, Rhoades & Co., investment bankers, through a subsidiary. Financing: Properties were initially financed by a combination of secured mortgages and bank debt when the trust initially came public in April 1973, but in August 1975 the trust mortgaged eight centers for $9.1 million at 9½% for 25 years and thereby eliminated its exposure to prime rate fluctuations. The trust is now funded by $17.6 million mortgages secured by property and $15.9 million by shareholder equity.

Results & outlook: Net income of $0.13/sh. for the January quarter was up sharply from $0.10 the year before, while net cash flow of $0.32/sh. was slightly ahead. For the nine months net cash flow was $1.04/sh., although loss of the Grant rents may cut April quarter funds. Dividends were maintained at $0.32/sh. through the January quarter, and were expected to be approx. 56% tax free return of capital for fiscal 1976. In view of imminent re-leasing of the Grant stores, we expect dividend continuation. Net cash flow represents a 7.4% return on book value before depreciation, whereas the market now demands an 11.7% yield on the shares (excluding any tax benefits). Thus the shares sell 35% below net book value of $16.76/sh. With re-leasing about set, the shares are attractive for higher income and some modest capital gains potential. (KDC)

GENERAL GROWTH PROPERTIES (19¼--NYSE-GGP) FY Sept. 30

Portfolio: General Growth is a developer of shopping centers and apartments and so buys its properties wholesale, in effect. This explains its extraordinary high internal rate of return--14.1% net cash flow on gross book value before depreciation. That return is far and away the highest among equity trusts and, coupled with growth in investments, explains GGP's premier position among REITs. Holdings are 65% in 19 shopping centers with 5.96 million sf owned by GGP, 24% in 5,882 apartments, 7% in motels and 4% in office and commercial buildings. GGP specializes in enclosed mall centers in medium sized Midwestern markets where such centers can dominate trading areas. Because it is a developer, GGP has been able to add to holdings consistently and total real estate investments have more than doubled from $81 million to $216.6 million in the past five years. During fiscal 1975 GGP opened three new centers adding 1,135,000 sf to its holdings. These centers demonstrate GGP's forte: Oakpark Mall in Austin, Minn. has 255,000 sf; Sioux Empire Plaza in Sioux Falls, S.D. has 516,000 sf, and Southridge Mall in Des Moines, Ia., has 364,000 sf. Five centers under development will add 2.29 million sf, with 450,000 sf St. Vincent's Fashion Mall in Shreveport, La. scheduled for fall opening. The spring 1977 opening schedule includes 360,000 sf Westland Mall in Burlington, Ia., 250,000 sf Capital Mall in Jefferson City, Mo., and 300,000 sf Siouxland Mall, Sioux City, Ia. A joint venture will open Plaza Carolina in San Juan late in 1977. GGP's apartments are located mainly in Houston, Detroit, Colorado, Iowa and Wisconsin and are 97% occupied.

GGP develops its centers under an ongoing development contract with General Growth Development Corp., one of three separate companies, all controlled by the families of Martin and Matthew Bucksbaum. General Growth Advisers, Inc. advises the trust and General Growth Management Corp. manages all properties except the motels and Detroit area apartments. The manager has a record of constructing its jobs within budget. About 85% of rental income is from major national tenants. Department store anchors in GGP centers include Younker Bros., 10 centers; Sears, Roebuck & Co., eight centers; J.C. Penney Co., six centers; Montgomery Ward, five centers.

Sponsor: Independent. The Bucksbaum family has no official position with the trust but owns 9.3% of shares; Younker Bros. department stores owns 12.0% of shares.

Financing: The trust was funded by $120 million secured mortgages at Sept. 30, 1975, $45 million construction loans, and $11 million short-term loans, most from banks. Shareholder equity reached $38 million with 6.03 million shares with recent conversion of some debentures.

Results & outlook: March quarter earnings of $0.28/sh. were level with the previous quarter but up 17% from year-ago. Dividends were held at $0.33/sh. for the second straight quarter in line with trust decision to break away from a 1-cent/qtr. gain pattern. Management sees net cash flow gaining about 15% to about $1.40 in fiscal 1976. Retailing in its market area is booming and major chains are stepping up their expansion plans. The 1975 dividend of $1.22 was 78% tax-free return of capital and this feature should remain as long as the construction program continues and Congress does not disturb tax treatment of construction interest. Although the shares appear high at a 6.8% yield, they are a core holding for growth oriented accounts. (KDC)

REAL ESTATE INVESTMENT TRUST OF AMERICA (15¼--ASE-REI) FY Nov. 30

Portfolio: Holdings are entirely in ownership of income producing real estate and the trust does not make mortgage loans. Properties are concentrated in standard commercial income types and in urban areas, and net holdings of $41.3 million after depreciation are 41% in shopping centers, 27% office buildings, 14% light industrial, 11% land ground leased to others or held for development, 6% other retail, and 1% apartments. Shopping centers provided only 28% of $8.1 million rental income in the November 1975 fiscal year, while office buildings provided 39%, indicating the higher rentals and depreciated base of some office buildings. A total 45% of holdings are in California, with 14% in the home state of Massachusetts and 10% in the District of Columbia.

Flagship holdings are 532,000 sf Country Club Center in Sacramento, Cal. and

350,000 sf Broadway Center in Walnut Creek, Cal., which together account for about 26% of gross rents. These two centers have been under competitive pressures in recent years from newer centers (they were initially built in 1951-52) and had 4.4% and 6.5% vacancies at the end of the fiscal year. Bullock's (Federated) opened a 180,000 store on leased land at Walnut Creek in November 1973 and management reports this has improved business there, with overage rents being stimulated. At Country Club Center in Sacramento, Montgomery Ward opened a new 150,000 sf unit in March 1976 and the trust is constructing an enclosed mall with 55,000 sf of shop space to connect Wards with the original mall. A 20,000 sf unit here vacated by J.C. Penney Co. has been re-leased to Longs Drug. In Washinton, D.C. last year the trust took over a 145,000 sf office building at 1325 K St. N.W. when the land tenant couldn't agree upon terms of a new lease with the Federal government and subsequently re-leased the entire building. Other major holdings are an older office building at 69-81 Tremont St., Boston, with an 11.8% vacancy at year-end but improving; and an industrial complex in Cambridge, Mass. Industrial holdings in Los Angeles and Atlanta are being developed under lease-backs by Cabot, Cabot & Forbes Co. and Crow, Pope & Land respectively. Overall REITA holds 37 different properties; some have been sold, often through condemnation proceedings, in each of the past five years.

Sponsor: Independent. REITA predecessors founded the trust in 1886 and it has paid dividends continuously since 1887. It is an old-style Massachusetts trust and trustees serve for life. Financing: REITA is among the most conservatively financed trusts, with mortgage debt of $7.9 million at Feb. 29 being only 19% of depreciated book value of property. The Sacramento shopping center is debt-free but the trust has agreed to borrow a maximum $2.5 million from a Boston bank to finance expansion there; the Tremont St. office building loan was increased by $1 million to provide additional funds.

Results & outlook: Expensing of interest on the expansion loan cut Feb. quarter net to $0.29/sh. from $0.32 the year before, and interest will continue to penalize quarterly results by about the same amount until late in the year when new rents begin. Management has retained the $0.35/sh. quarterly dividend and a dividend reinvestment plan is available. While results have been stable over many years, the shares sell at a 28% discount from book value, explained by the fact that net income including capital gains of $1.43/sh. in fiscal 1975 equalled a low 6.7% return on book value. The market in effect is saying it demands a 9.1% return from this class of investment. The shares are excellent for conservative income accounts. (KDC)

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST (11 1/8--ASE-PEI) FY Aug. 31

Portfolio: Depreciated holdings were virtually unchanged in the year to Aug. 31, remaining at $71 million. One of the oldest trusts, whose formation goes back to 1960, it stayed equity oriented with 96% of portfolio as of August, 1975. Many properties were accumulated in its early years providing a mix by gross investment of 36% apartments, 9% motel (since sold), 38% shopping centers and retail stores, 6% industrial properties, 3% office building, 1% ground leases, and 7% land and construction in progress. The apartment portfolio is 10 complexes with 2,750 units mostly in Pennsylvania within a 100-mile radius of the trust's office. Most are modern (post 1950) and in relatively stable, attractive neighborhoods. Occupancy is over 96% with most apartment complexes having only 1-2% vacancy rates. Most rents were raised modestly within the past year, 0-15%. The state of Pennsylvania is quiet regarding rent control. The 18 shopping centers and retail stores range in size from 40,000 to 1 million sf and are scattered in twelve states east of the Mississippi. Occupancy is full for practical purposes, most centers have traditionally shown less than 3% vacancy. The only significant vacancy is the space formerly leased to bankrupt W.T. Grant now in liquidation. Grant occupied 194,000 sf, 6% of the 3.2 million sf the trust has an interest in (some less than 100%). Two of the four former Grant stores are already re-leased, at higher rentals. There is about a three-month lag for new leases to take effect. The third store's lease was sold by Grant in liquidation and the trust has a letter of intent from the buyer. The trust is in possession of the fourth store

and is in negotiation with a new tenant and optimistic. The trust has few other real problems. Aside from Grant stores, problem investments total $702,000, 1% of its portfolio. These are a $300,000 ground lease in North Carolina which was fully reserved for, a $175,000 loan on Pennridge Industrial Park, Bucks County, Pa. and a vacant 40,000 sf store in Auburn, N.Y. on the books for $227,000 (over a $129,000 mortgage). The biggest problem was eliminated with the sale of the Fontainebleau Motel in Dec. 1975 at $705,000 over the loss reserve. Carried on the books at $4.3 million, this was a major disposition. Additions during the current year are a 50% interest in a $2 million 99,500 sf office building in New Orleans, La. and completion of the $27.5 million Lehigh Valley Mall scheduled for October in which the trust has a 50% interest. All told, these developments will bring the trust's portfolio to about $75 million, about 6% above fiscal 1975's holdings. Lehigh Valley Mall is quite significant to the trust. A regional mall, its 50% share will be carried on the books at approximately $14 million, its largest investment by far. To include a 335,000 enclosed mall, the center will be anchored by three department stores having quality merchandising image: Penney, Bamberger's (a Macy subsidiary) and John Wanamaker, a "carriage trade" store known to the Pennsylvania community. The trust knows the area well having three local centers nearby. Population is close with houses visible from the center. There is street access to major roads leading to towns: Allentown, Bethlehem and Easton. There is a broad employment base. The joint venture arrangement is similar to many of the trust's other deals whereby it tied in with real estate professionals who provide management and expertise to complement the trust. Usually Penn REIT takes a cumulative, preferred return for its fractional interest. When the project is refinanced or sold, the trust gets its money back first, the partner gets an equal amount and any remainder is shared pro rata. In the meantime, Lehigh Valley's construction and leasing are progressing on schedule. As of February, $16 million of the $27.5 million construction was advanced. The center should start earning at 85% occupancy.

Financing: Fundings were 27% capital and 63% senior debt in Aug. 1975. Capital of $19 million was 89% equity and 11% convertible and other subordinated debentures. Senior debt of $52 million was 94% secured mortgages, 1% construction loans and 4% bank notes. Only modest additional financing is required. The bank line will accomodate construction lending to complete Lehigh Valley Mall which after completion is slated for long-term secured financing by a pension fund for $25 million at 9% for 35 years (9.41% constant). Sponsor: Independent. Trustees include several professional real estate developers, several of whom joint venture with the trust.

Results & outlook: In the first half ended Feb. 1976, earnings from operations fell 1% to $0.53/share. Net cash flow climbed 4% to $0.71/share which indicates a fair cushion for the $1.15 annual dividend. This provides a 10.3% yield at current prices, sufficiently attractive for income purchase considering the reasonably good quality of assets and management. In fiscal 1974, $0.19 of the $1.15 dividend was capital gain. The record has been essentially upward even if blemished occasionally. The second half could improve slightly from the first half given the absence of the Fontainebleau Motel for the full period. Longer term, success of the regional Lehigh Valley Mall would not only mean profits and cash flow but also possibly higher investment regard as a developer, hence capital gain potential. (BS)

WASHINGTON REAL ESTATE INVESTMENT TRUST (16 1/8--ASE-WRE) FY Dec. 31

Portfolio: Depreciated holdings of $27.8 million were 3% less than a year ago, strictly because of depreciation writedown. There were no significant property changes last year. Property collection goes back to 1960 for this equity trust, indicating the slow acquisition process for this small portfolio. Moreover, all 18 properties are in the Washington, D.C. area extending into Virginia and Maryland, and within an hour's auto drive from the trust's office. The property mix at yearend by gross investment was 68% in eight apartment complexes, 19% in five shopping centers and 13% in five commercial properties (office buildings and distribution centers. Gradual and careful selection has paid off in one of the consistently highest rates of return. Four of the high-rise apartments are located in Washington, D.C. and four in northern

Virginia. Washington apartments are now subject to rent control under a law passed last year. The law is flexible to permitting hardship increases and 8% rate of return on assessed value. In practice, the best expected is red tape and delay. However, the trust's application for increase was approved in February and 5% rent hikes instituted. Tenants at two buildings protested but their request for audit is expected to be removed. Thus assuming operating expenses do not increase inordinately, operating margins should be maintained this year. More fundamental to long-term viability of Washington apartment ownership, there is discussion of administrative difficulties in applying the law. And the Rental Accomodation Commission recently unamimously recommended to the City Council that luxury apartments be exempt. Washington REIT's apartments fall into this category. Since the trust's rentals are reasonable by luxury standards, $195-205 for efficiencies and $254-264 for one bedroom, and also affordable by middle income D.C. workers, the trust could probably manage nicely while serving most tenants fairly. Much depends on the course of operating expenses. All the trust's apartments provide utilities such as electric. Therefore margin preservation requires ability to pass along inordinate cost increases. Apartment vacancies fell even lower in 1975 running about 1½% including turnovers. Shopping centers remain a bright spot. There are no vacancies to speak of. The trust's centers hold up well through varied economic times since they are neighborhood types with strong food and drug anchors. Although there is risk inherent in geographic concentration, the Washington metropolitan area is exceptional for its economic stability during all cyclical phases. The area's economy has historically grown with cyclical immunity and if at worst Federal government activity in the capital should decline as a percentage of total national activity, there seems little likelihood of absolute decline.

Financing: Fundings at yearend were 52% capital and 48% straight debt. Capital of $15.8 million was 98% equity and 2% convertible debentures. Debt of $14.6 million was all secured mortgages. No financing is needed. Additionally, there is surplus cash of $1.6 million in certificates. If desireable, i.e., if long-term interest rates were low or if cash was needed, five properties free of mortgages could be refinanced. Sponsor: Independent, trust is managed by trustees.

Results & outlook: Fairly rapid growth has been achieved over the years culminating in $1.41/share earnings in 1975 with net cash flow of $1.61. The increased dividend in late 1975 brought the rate to $1.30, seemingly well protected. Further improvement should be made in 1976. Rent control in Washington, D.C. clouds the future somewhat. This should not be detrimental to this year's results although a paperwork headache is being created. Longer term, such controls will have to be watched as potentially restrictive if inflationary cost pressures resurge at more rapid rates than currently being experienced or expected. These 1 rated shares remain a sound holding, an absence of insider dealing making for few but quality transactions. (BS)

CONSOLIDATED CAPITAL REALTY INVESTORS (26--OTC) FY Nov. 30

Background: Shares of this REIT began trading in April after successful completion of a 2 million share offering begun in late 1973. Operating history is therefore short and financials not fully reflective of latest investment posture. By March 1976, equity holdings of $80.6 million were purchased: 73% apartments, 20% shopping centers and 7% in an office building and industrial park. Locations are the Far West and Texas. Only completed, ongoing and well-rented properties are bought. Only standard real estate is sought, nothing requiring specialized operating know-how. Property management is considered the trust's strongest capability. By seeking economy of scale in a reasonably tight geographic circle, it hopes to get top utilization from properties from proprietary management.

Financing: Funds on Nov. 30 (latest balance sheet) were 36% capital, all equity of $25.6 million, and 64% debt, $45.7 million long-term secured mortgage notes. Sponsor: Consolidated Capital Equities Corp., large California real estate syndicator.

Results & outlook: Operations appear to have gotten off to a good start. Market regard is high with a price over book value, partly attributable to dividend being 83% tax free in fiscal 1975. Management is making an intelligent, aggressive effort to create a significant equity trust. (BS)

SUBSCRIBERS ASK: UPDATE ON TMC MORTGAGE; TRI-SOUTH MTG. BONDS; CHASE TRUST BONDS

As space permits we try to answer subscriber questions of general interest. Here are some of the questions subscribers are asking currently:

Q. What is status of TMC Mortgage Inv.: where traded, AMEX suspension, etc.?

A. Two New York City brokers, Carr Securities and Amswiss Corp., make a market in TMC Mortgage, as they do in many other issues when the exchanges stop trading in them. It is quoted at 1 bid, 1½ asked. A credit agreement is in final negotiations and the audit for the March 1976 fiscal year is underway; the American Stock Exchange will look at continued trading when these two documents are completed.

Q. What's current status of Tri-South Mortgage bonds?

A. Interest on both the 7-3/4% senior subordinated debentures due 1980 and the 7% convertibles is payable Feb. 15 and Aug. 15, and is current through Feb. 15. Tri-South signed a series of three credit agreements effective Feb. 27 that essentially put three classes of creditors on an equal footing. The creditors--$116 million of domestic line banks, $30 million in term lenders, and $13.8 million Eurodollar lenders--now have a common maturity of Dec. 31, 1977, and receive 4% interest--of which 1% is paid in cash and 3% is accrued to maturity. Holders of the $25 million 7-3/4% senior subordinated debentures and $12.4 million of 7% convertibles due 1992 are being asked to waive various defaults. The bank agreement seems to assure that the next three interest payments will be made through 1977. The fact that 21% of total $202½ million debt is subordinate is potentially dangerous, since it stands to reason that sooner or later the banks may resist continued interest payments. At current bid-asked prices (25-30 and 20-25 respectively), a current purchaser could likely count on getting 30% of the purchase price back as interest through 1977 and then take his chances on credit revision, portfolio improvement, etc. It's an interesting speculation then. They're traded OTC now and the NYSE may consider trading resumption when debenture holders act.

Q. My anchor position is shares of General Growth Properties. I also hold BT Mortgage, IDS Realty, Lomas & Nettleton Mortgage and North American Mortgage. Should any be sold and proceeds reinvested in General Growth?

A. We've been ranking both Lomas & Nettleton and North American No. 4 because we wanted to make sure their operational low points have been passed. North American Mtg. reported $0.05/sh. earnings in the March quarter but continued its 25-cent dividend. Earnings likely won't improve dramatically for awhile but management's willingness to continue the dividend indicates it sees little possibility of further deterioration either. Holdings are largely in standard urban properties. At 6-1/8 (NYSE) the shares have a speculatively attractive 16% yield. Lomas & Nettleton Mortgage reported 9-cents earnings and dividends in the March quarter, down sharply from earlier projections and due to an extra $800,000 (22-cents) added to the loss reserve. Nonearning loans rose to $87 million, or 38% of investments, a new high for LOM; management says liquidation of some nonearning investments fell behind schedule and believes problem loans can fall to about $70-$75 million by end of the June 30 fiscal year. The shares haven't fallen from the sharp earnings decline and at 13-3/4 (NYSE) look as if most investors expect 30-35 cents in the June quarter.

BT Mortgage was reviewed Feb. 13 and there's very little to add except that the loss widened moderately to 46-cents/sh. in the March quarter. There probably are better recovery speculations. IDS Realty recently signed a new credit pact with its bank lenders but bond holders must vote to forego payments into a redemption fund before it becomes fully effective. The loss of $3.85/sh. for the January quarter reflected continuing additions to the loss reserve under accounting rules and resulted in negative book value of about $2.00/sh. Recovery will be protracted. Your holdings are conservative and there's no reason you should hold these shares.

Q. I hold nearly 3,000 shares of Investors Realty Trust. They reported positive

cash flow of nearly 30-cents/sh. for the November 1975 year and have advised they expect to resume dividend payments in 1976. Is this possible in your opinion?

A. Investors Realty Trust had 29-cents/sh. cash flow by our calculations. Most troubled real estate holdings seem under control or on the way to recovery, so the trust may very well increase cash flow quite nicely this year. But a snag has developed on resuming the dividend. IRT signed a credit agreement last summer that gave banks the right to exit from the line March 31, 1976. Two small banks have asked to leave the line; one is a troubled Hamilton Bancshares unit now in bankruptcy; together they have loaned about $1½ million of IRT's $14.6 million bank loans. Letting these two banks out is a very sticky wicket and it will be impossible to consider any dividend until these negotiations are completed.

Q. I hold Chase Manhattan Mtg. & Realty, Citizens & Southern Realty, Hospital Mtg., ICM Realty, and Realty ReFund Trust. Are the first two able to weather the crisis? What are prospects for the rest?

A. The first two are deeply troubled and highly speculative, in our view. The names of their big bank sponsors largely keep them afloat. Chase Trust was reviewed March 12. The other three have been able to maintain dividends. Realty ReFund holdings are largely in mature downtown office buildings with generally stable tenancies, even with overbuilding. Its short-term bank debt makes earnings slightly sensitive to changes in the prime rate, but shares may be held. ICM Realty has shown declining quarterly earnings recently but should benefit from better apartment occupancies; it was reviewed last Sept. 12. Hospital Mtg. is now in the year-end audit.

Q. Why did you rate the Chase Manhattan Trust 7-7/8% senior notes of 1978 as having "extreme risk" in your Feb. 13 review? They are superior in right of payment and constitute only about 6% of all obligations.

A. Two reasons: 1) Near-term maturity. The notes mature May 1, 1978, less than two years away and an extremely short time to turn around much of the real estate held, especially the 46% of $605 million nonearning loans in condos and land/land development categories; 2) Its pari passu standing with bank debt. Bank lenders have already agreed to accept 2% cash interest minimum, vs. full rate on the senior notes. In similar instances, banks have resisted paying off other creditors while they must stay in a troubled situation. Management says it is considering ways to deal with this public debt but until a plan is presented, the notes must be rated high risk vehicles.

Q. I own Cabot, Cabot & Forbes Land Trust 8½% subordinated debentures due 1981. Since you classed the Chase Manhattan bonds due in the same time frame as speculative, would I be correct in concluding that CC&FLT bonds fall into the same general risk?

A. CC&FLT was reviewed April 9. Since you bought the bonds at par on the original offering, probably best to hold until the pending credit agreement negotiations are done. Please note that CC&FLT has far smaller amounts of senior bank debt than Chase Trust, and its debt has five years to run, vs. two for Chase.

Q. Will LMI Investors pay interest on its 6-3/4% debentures deferred Apr. 15?

A. At press time May 13 new management of the adviser was hopeful that interest could be paid by the May 15 grace period expiration. But LMI's 15 banks have divergent views and nothing is certain for now. Failure to meet the May 15 deadline would not be disastrous; other trusts have done so and caught up later.

Q. Continental Mortgage Investors recently went into Chapter XI and some creditors want it in Chapter X. How have junior creditors fared in other bankruptcies?

A. Associated Mortgage Investors entered Chapter XI in March 1974 and was discharged in October 1975. The plan of arrangement gave holders of $10 million of senior subordinated debentures their accrued interest upon confirmation, with 10% of principal due each June 1 from 1976 to 1978, and the remainder over three years to Dec. 1, 1979. Senior bank lenders of about $40 million are to receive all their funds, without interest, by the end of 1978. All payments are contingent upon portfolio liquidation. Our book REITS - WHAT'S AHEAD published last September contains nearly 50 pages on how share and bond holders fare in REIT bankruptcies; it may be ordered at $19.50 per copy.